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Sept. 29, 2020

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

**Re: Reporting Threshold for Institutional Investment Managers, Release No. 34-89290; File No. S7-08-20**

Dear Ms. Countryman:

Morningstar (MORN), an independent provider of investment research headquartered in Chicago, IL, urges the commission to reconsider its proposed amendments to the Form 13F reporting rules for institutional investment managers. We believe that the current proposal conflicts with the commission's duty to uphold transparency by placing the concerns of a subset of asset managers ahead of other market participants, particularly individual investors, who would lose an important, publicly available research tool. Instead, we suggest that the commission withdraw its current proposal and convene a public roundtable to consider the opinions of all market participants.

**13F Reporting Requirements Need to be Modernized, not Eliminated**

We agree with the commission that ownership disclosure rules need modernization; however, the proposed rule would dramatically reduce market transparency. The draft rule would allow 89% of current 13F filers to cease reporting, which would eliminate useful information about investment strategies and holding periods of the more than 4,500 firms managing assets below the $3.5 billion threshold. We believe that an inflation-based increase in the filing threshold would be reasonable and would also be consistent with the incremental approach used by the commission when adjusting economic thresholds in other rules, such as the gross revenue cap for emerging growth companies,[1] the adjustments to the transition thresholds for companies that exit accelerated filer status and exit large accelerated filer status,[2] and the proposed updates

[1] Inflation Adjustments and Other Technical Amendments Under Titles I and II of the JOBS Act, Release Nos. 33-10332; 34-80355; File No. S7-09-16 (March 31, 2017).

[2] Accelerated Filer and Large Accelerated Filer Definitions, Release No. 34-88365; File No. S7-06-19 (March 12, 2020). (The SEC increased the threshold for exiting accelerated filer status by 20% to $60 million from $50 million, while the threshold for exiting large accelerated filer status increased by 12% to $560 million from $500 million.)

to SEC's rules on shareholder resolutions.[3] Moreover, the SEC's Office of the Inspector General 2010 Review of Section 13F Reporting Requirements suggested raising the threshold to $300 million[4] in accordance with inflation using the Consumer Price Index. We believe that is an appropriate adjustment, rather than the tenfold increase the SEC is proposing.

Market transparency increases market efficiency, which ultimately lowers costs for all investors. To that end, we support 13F modernization, including recent proposals by the National Investor Relations Institute, the NYSE Group, Nasdaq, and the Society for Corporate Governance.[5] These include transparency-boosting elements, such as the reduction of an outdated 45-day reporting period, as well as the inclusion of short positions and other types of securities like derivatives. Morningstar also believes that it would be useful to report aggregate purchases and sales activity during the reporting period in addition to quarter-end positions, as this method is more transparent than the dated snapshot provided by the current reporting method. Finally, to enhance the usability of the 13F data, Morningstar believes that the form should include the full company legal name as well as other identifying information such as a central index key and legal entity identifier and other company-related information like domiciles and business addresses. Finally, we believe the 13F should provide information on each beneficial owner.

**Raising the Threshold Places Asset Managers Ahead of Individual Investors**

An analysis of 13F filing data conducted by Morningstar reveals that, in the first quarter of 2020, institutional investment managers filing Form 13F reported holdings in 7,224 listed equity issues. For 62% (4,478) of these issues, institutional holdings are sufficiently high that an investor would need to contact only one holder to communicate with at least 3% of the corporation's equity ownership. Upon raising the threshold to $3.5 billion, this percentage would drop to 53%.

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[3] Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8, File No: S7-23-19 (Nov. 5, 2019). (The commission proposed to increase the minimum holding requirement for shareholder resolutions to $25,000 from $2,000 but would mitigate the impact of that change on small investors by allowing them to use the $2,000 threshold if they continuously hold a company's shares for at least three years.)

[4] https://www.sec.gov/files/480.pdf

[5] See NYSE Group, NIRI, and Society for Corporate Governance, Request for Rulemaking Concerning Amendment of Beneficial Ownership Reporting Rules Under Section 13(f) of the Securities Exchange Act of 1934 in Order to Shorten the Reporting Deadline under Paragraph (a)(1) of Rule 13f-1, Petition No. 4-659 (Feb. 1, 2013), available at: https://www.sec.gov/rules/petitions/2013/petn4-659.pdf; NYSE Group and NIRI, Petition for Rulemaking Pursuant to Sections 10 and 13(f) of the Securities Exchange Act of 1934, Petition No. 4-689 (Oct. 7, 2015), available at: https://www.sec.gov/rules/petitions/2015/petn4-689.pdf.; and Nasdaq, Petition for Rulemaking to Require Disclosure of Short Positions in Parity with Required Disclosure of Long Positions, Petition No. 4-691 (Dec. 7, 2015), available at https://www.sec.gov/rules/petitions/2015/petn4-691.pdf.

Morningstar has a rich history of advocacy on behalf of individual investors, and we believe that the current proposal places the needs of a subset of asset management firms ahead of individual investors' needs. 13F filings are the only accurate source of ownership information freely available to individual investors. The filings surface investment ideas for individual investors who perform their own investment selection, but they can also help individual investors research asset managers they might like to hire. As such, the proposal deprives individual investors of an important tool used to hold the asset management industry to account.

**Concealing Hedge Fund Involvement Favors Short-Term Thinking Over Long-Term Investing**

The proposal would likely expose more U.S. public companies to hedge fund activism, placing short-term thinking ahead of longer-term-oriented investors. According to Activist Insight, 2019 was a record year for activism as 470 U.S. companies were targeted and 95 proxy contests were launched,[6] and it is reasonable to expect that many activist investors took advantage of share price declines in early 2020 to amass larger stakes in potential target companies. According to IHS Markit, 86% of activist investors would no longer have to make 13F filings should this proposal go into effect. Under the proposed $3.5 billion threshold, these activist investors could conceal their positions to their benefit, catching long-term-oriented institutional and individual investors by surprise should activist involvement later lead to increased volatility in these positions.

For these reasons, we request that the commission withdraw its proposed 13F amendments.

Very truly yours,

Aron Szapiro, Head of Policy Research
Morningstar, Inc.

Barbara Noverini, CFA, Head of Investor Relations
Morningstar, Inc.

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[6] See Lisa Silverman, Bloomberg Law, "Insight: Preparing for Post-Pandemic Corporate Activism," May 4, 2020, available at: https://news.bloomberglaw.com/corporate-governance/insight-preparing-for-post-pandemic-corporate-activism.